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Sources of Revenue in American Cities

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IT has long been a commonplace among students of taxation that the provision of revenues and the wise control of expenditures of city governments constitute a vital problem in the field of public finance. Briefly stated, the problem has been to provide by equitable means enough revenue to permit efficient performance of the many new functions which public opinion has devolved upon local governments. The progressive urbanization of our people has accentuated this problem while it has supplied us with proofs of its seriousness.

In 1909 there were in the United States 158 cities with populations exceeding 30,000 and with an aggregate population of 25,600,000. Of these 158 cities, 16 had populations in excess of 300,000. Financial statistics for that year show per capita revenue receipts of \$26.21 and governmental-cost payments of \$30.11 per capita. By 1916 there were 213 such cities with an aggregate population of over 32,000,000. Per capita receipts and payments were \$30.83 and \$33.11 respectively. In 1918, the latest year for which figures are available, 227 cities over 30,000 population had a total population of well over 34,000,000. Each of the inhabitants of these cities made a contribution to the city's treasury of \$32.75 and bore as his share of expenditures a burden of \$34.16. In normal times expenditures of local governments amount to 45 per cent of the expenditures of all governmental units, federal, state and local. An inquiry into the sources of revenue of American cities should, therefore, be of more than ordinary interest.

During 1918 the revenue receipts¹ of the 227 cities with a population over 30,000 amounted to \$1,124,094,899. Table I shows the aggregate figures from each source and the per capita and per cent distribution of this total.

It will be seen from this table that "taxes" account for slightly over 70 per cent of all revenue receipts. By "taxes," as the term is used in the reports of the Census Bureau, is meant all compulsory revenues other than fines and special assessments. The term, therefore, includes general and special property taxes, poll and business taxes and various license taxes, whether or not accompanied by the issuance of a permit, and has this meaning wherever used in this paper. Of the total of over \$790,000,000 received from "taxes," nearly \$722,000,000, or 91.3 per cent, is derived from taxes on property. Of this latter sum over \$705,000,000 is produced by the general property tax, the remaining \$16,000,000 being secured from special property taxes. The latter consisted largely of taxes on bank stock and corporations, nearly three-fourths of which was collected by Massachusetts and New York cities. In fact, taxes on property accounted for 64.2 per cent of all revenue receipts. Over \$66,000,000 was produced by business and license taxes, the larger part of this total

¹ The term "revenue receipts," as used by the Census Bureau, includes those sums accruing to the city on revenue account and does not include such receipts as arise from the sale of investments and supplies. These latter are known as "non-revenue receipts." "Revenue receipts" must not be regarded as net, for the governmental cost payments for the carrying on of the recognized municipal functions must be charged off against the "revenue receipts."

TABLE I

TOTAL AGGREGATE REVENUE RECEIPTS FROM EACH SOURCE WITH PER CENT AND PER CAPITA DISTRIBUTION OF THESE TOTALS

| Source | Total | Per capita | Per cent |
|---|------------------------|----------------|--------------|
| Taxes..... | \$790,577,487 | \$23.03 | 70.3 |
| Special assessments..... | 72,673,785 | 2.12 | 6.5 |
| Fines, forfeits and escheats..... | 5,753,081 | 0.17 | 0.5 |
| Subventions and grants..... | 41,277,908 | 1.35 | 4.1 |
| Donations, gifts..... | 5,209,570 | | |
| Earnings of general departments..... | 29,526,180 | 0.86 | 2.6 |
| Highway privileges..... | 15,796,393 | 1.82 | 5.6 |
| Rents..... | 12,538,024 | | |
| Interest..... | 34,247,826 | 3.39 | 10.4 |
| Earnings of public service enterprises..... | 116,494,645 | | |
| <i>Total</i> | <i>\$1,124,094,899</i> | <i>\$32.75</i> | <i>100.0</i> |

being derived from taxes on the liquor traffic.²

Only one item in table I shows a decrease from the figures for 1917. Receipts from special assessments fell off nearly \$11,000,000, a decline which is reflected in the figures for expenditures for outlays in 1918. Receipts from this source were less in 1918 than in any year since 1907, largely because of war conditions affecting the construction of street improvements.

Chart I is intended to show in graphic form the per cent distribution of the principal revenue receipts for all cities with populations of 30,000 and over.

Table II presents the per cent figures for each of the five groups of cities reporting to the Census Bureau and the same figures for all cities. These groups are: (1) Cities over 500,000; (2) those between 300,000 and 500,000; (3) 100,000 to 300,000; (4) 50,000 to 100,000; (5) 30,000 to 50,000.

This table shows that, in general, taxes are a more important source of revenue in large cities than in the smaller ones, the comparatively lower rate in the three last groups being offset by proportionately greater re-

turns from such sources as special assessments and subventions. The earnings from public service enterprises are also a more important source in the smaller communities. The returns from such sources as highway

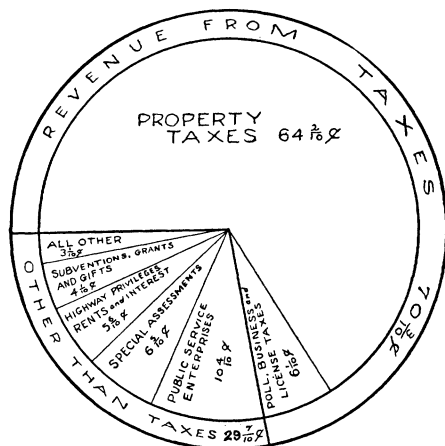


CHART I

Where Every Dollar of City Revenue Comes From

privileges, rents and interest are naturally considerably higher in the larger cities.

Chart II shows graphically the relative per capita figures for all cities over 30,000, and for each of the five groups.

² For a definition of business taxes see p. 118

TABLE II

PER CENT DISTRIBUTION OF THE PRINCIPAL REVENUE RECEIPTS FOR EACH OF THE FIVE GROUPS OF CITIES OVER 30,000 POPULATION

| Group | Taxes | | | Special Assessments | Fines Forfeits and Escheats | Subventions, Grants and Gifts | Earnings, General Departments | Highway Privileges, Rents and Interest | Earnings, Public Service Enterprises |
|-------|----------|------|----------------------|---------------------|-----------------------------|-------------------------------|-------------------------------|--|--------------------------------------|
| | Property | Poll | Business and License | | | | | | |
| I | 66.7 | ... | 5.9 | 4.7 | 0.4 | 2.0 | 2.6 | 7.7 | 9.8 |
| II | 59.6 | 0.1 | 6.2 | 7.9 | 0.4 | 8.3 | 3.0 | 4.2 | 10.4 |
| III | 64.2 | 0.4 | 5.4 | 8.6 | 0.6 | 4.5 | 2.5 | 3.6 | 10.2 |
| IV | 60.9 | 0.5 | 7.2 | 8.7 | 0.8 | 6.9 | 2.2 | 2.6 | 13.0 |
| V | 61.0 | 0.5 | 7.2 | 8.7 | 0.9 | 5.6 | 2.6 | 2.1 | 11.3 |
| All | 64.2 | 0.2 | 5.9 | 6.5 | 0.5 | 4.1 | 2.6 | 5.6 | 10.4 |

This chart demonstrates the fact that, generally speaking, the larger the city the greater the per capita cost of government. The only exception to this generalization is seen in the slight increase of the fifth group over the figure given for the fourth.

Table III presents the aggregate of receipts from taxes of all sorts with the average per cent and per capita figures for all cities over 30,000 population.

In spite of the fact that 100 of the 227 cities reported receipts from special property taxes, this table shows that for local purposes the general property tax continues to be the mainstay of the tax system. In states where separation of revenues has been attained, the revenue from special property taxes is reserved to the state governments. Poll taxes, although now an insignificant source of revenue, continue to be collected by 95 cities in 22 states. More than half the \$2,014,952 is paid in New England cities. Of the total of \$59,645,759 from business taxes, \$35,576,383, or 59.7 per cent, was collected from the liquor traffic.

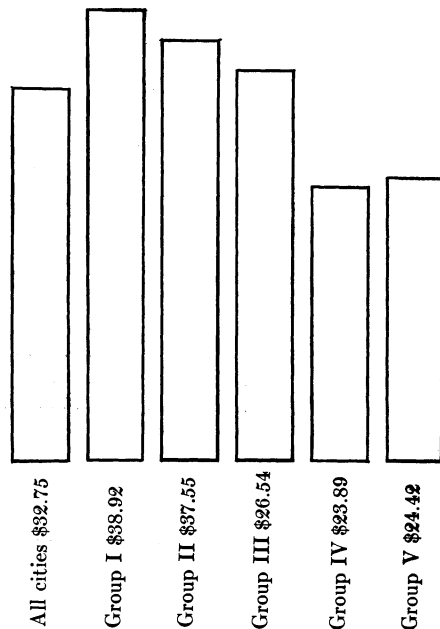
Chart III illustrates the distribution

of receipts from the various kinds of taxes.

Commercial revenues arising from the operation of public service enter-

CHART II

Per Capita Revenue Receipts for all Cities and for Each of the Five Groups of Cities over 30,000 Population



prises are in most cases the largest single source of revenue receipts after taxes. In 1918 the lands, buildings and equipment of such enterprises operated by the cities of the United States with populations over 30,000 were valued at \$1,669,460,643. The earnings of these enterprises totaled \$116,494,645 or 10.4 per cent of all revenue receipts, and represented a per capita contribution of \$3.39. Table IV shows the aggregate earnings of the chief public service enterprises with the percentage of the total receipts from this source chargeable to each.

Water systems, one of the oldest of municipal utilities, continues to be the most productive of receipts, accounting for more than three-fourths of all commercial receipts. Of the 227 cities over 30,000 population for which census figures are available, only twenty-two owned their own electric plants and only five made their own gas, although private plants for these purposes represented several billion dollars of invested capital.

The earnings from municipal mar-

kets and scales which account for 1.4 per cent of all commercial receipts are scarcely more important than the re-

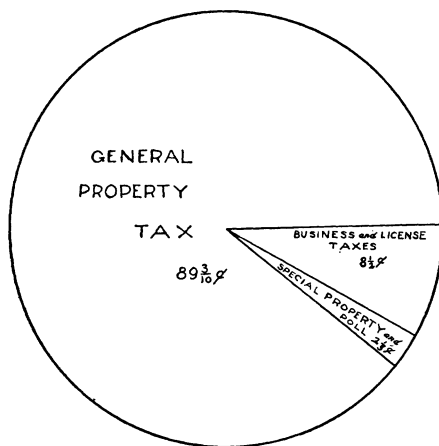


CHART III

Where Every Dollar of Taxes Comes From

ceipts from municipal burying-grounds—a significant fact indeed. The last item in the list above includes such miscellaneous sources as bridge and ferry tolls and the earnings of city farms, ice plants and abattoirs.

TABLE III

TOTAL RECEIPTS FROM TAXES OF ALL SORTS WITH PER CENT AND PER CAPITA DISTRIBUTION

| Source | Total | Per cent of all Taxes | Per capita |
|-------------------------------------|---------------|-----------------------|------------|
| General property tax | \$705,723,158 | 91.3 | \$21.03 |
| Special property tax | 16,269,058 | | |
| Poll taxes | 2,014,952 | 0.2 | 0.06 |
| Business taxes | 59,645,759 | | |
| On liquor traffic | 35,576,383 | 8.5 | 1.94 |
| Other than liquor traffic | 24,069,376 | | |
| Non-business license | 6,924,560 | 100.00 | 23.03 |
| | | | |

Special assessments and subventions from state and county governments are the principal remaining sources of revenue receipts in American cities. In 1918, 215 of the 227 cities over 30,000 population reported receipts from special assessments totalling \$72,673,785. While this source accounted for only 6.5 per cent of all revenue receipts, many cities received as high as 20 per cent, the higher figures being more common in the group of cities with populations between 30,000 and 50,000.

Table V gives the aggregate and per cent figures with the source and object of payment of subventions for the five groups of cities.

A study of the sources of revenue of the 227 cities as distributed in four geographical groups reveals some interesting facts as set forth in table VI. Group I includes 36 cities in New England; group II, 109 cities in the middle and central states north of the Ohio and Potomac and east of the Mississippi; group III, 43 west of the Mississippi excluding Louisiana, Ar-

TABLE IV

TOTAL AND PER CENT DISTRIBUTION OF THE EARNINGS OF PUBLIC SERVICE ENTERPRISES

| <i>Source</i> | <i>Total</i> | <i>Per cent</i> |
|---------------------------------|---------------|-----------------|
| Water supply systems..... | \$90,139,705 | 78.1 |
| Electric light and power..... | 8,315,960 | 6.9 |
| Gas supply systems..... | 1,418,511 | 1.2 |
| Markets and scales..... | 1,758,480 | 1.4 |
| Docks, wharves, landings..... | 7,786,509 | 6.6 |
| Cemeteries and crematories..... | 1,049,706 | 0.8 |
| Public halls..... | 172,862 | 0.1 |
| Subways for pipes, etc..... | 311,555 | 0.2 |
| All other..... | 5,541,357 | 4.7 |
| <i>Grand Total</i> | \$116,494,645 | 100.0 |

Subventions from state and county governments totalled \$41,277,908 in 1918. Of this amount \$35,988,403, or 87.2 per cent was for education. State governments contributed \$34,820,537, or 84.3 per cent of the total. All but two cities reported subventions. The largest per cent figure is found for cities in the group having populations between 300,000 and 500,000, but this is due to the large grant made to Washington, D. C., by the Federal Government which in 1918 constituted 39.8 per cent of all the revenue receipts of the city. This extraordinary exception aside, subventions seem to be of greater importance in the fourth group of cities and, as we shall see, are of most importance in the southern cities.

kansas and Texas; group IV, 39 cities in the South, east of the Mississippi, as well as those in Louisiana, Arkansas and Texas, which belong more properly to the South than to the West. The per cent figures are for the five principal sources of revenue and in all cases account for more than 90 per cent of the aggregate revenue receipts.

Several features of this table are worthy of notice. Taxes on property form a considerably larger proportion of the receipts of New England cities than is the case in the southern group. The statement often made concerning the prevalence of business taxes in the South would seem to be substantiated by the figures in this table, although the discrepancy between the figure for this source and the corresponding

figure in the New England group is not so large as might be expected. The other two groups show per cent figures for this source smaller than the

those of Texas receive least from this source.

Special assessments are much more productive in the western states than

TABLE V

AGGREGATE AND PER CENT FIGURES WITH SOURCE AND OBJECT OF PAYMENT OF SUBVENTIONS FOR ALL CITIES OVER 30,000 AND EACH OF THE FIVE GROUPS OF CITIES, 1918

| Group | For Education | | Other Grants | | Per cent for Education | Per cent from States |
|-------|---------------|-----------|--------------|---------|------------------------|----------------------|
| | State | County | State | County | | |
| I | 8,265,298 | | 248,099 | | | |
| II | 9,280,098 | 26,097 | 4,466,333 | | | |
| III | 5,660,306 | 1,929,744 | 28,720 | 136,513 | | |
| IV | 4,093,790 | 2,193,249 | 8,665 | 63,236 | | |
| V | 3,075,914 | 1,463,907 | 193,314 | 144,625 | | |
| Total | 30,375,406 | 5,612,997 | 4,945,131 | 344,374 | 87.2 | 84.3 |

average for all cities. Many of the southern cities receive as much as ten per cent of their total receipts from this source and a few a much higher proportion. Thus, New Orleans receives 10.5 per cent from such taxes; Mobile 12.6 per cent; Norfolk 14.6 per cent; Montgomery 19.9 per cent and Birmingham 21 per cent. Of all the southern cities

elsewhere, while they are least resorted to in New England. Their more extensive use in the West is to be explained in part at least by the prevalence of strict debt limitations on cities in the constitutions of those states which make municipal loans difficult, and by limitations on the tax rate which make payments for

TABLE VI

PER CENT DISTRIBUTION OF THE PRINCIPAL SOURCES OF REVENUE FOR ALL CITIES OVER 30,000 ARRANGED IN FOUR GEOGRAPHICAL GROUPS, 1918

| Group | Property Taxes | Business and License Taxes | Special Assessments | Subventions and Grants | Earnings, Public Service Enterprises |
|------------|----------------|----------------------------|---------------------|------------------------|--------------------------------------|
| I | 68.6 | 7.4 | 1.8 | 1.2 | 12.0 |
| II | 62.9 | 5.7 | 8.9 | 5.8 | 10.8 |
| III | 58.7 | 4.4 | 11.0 | 7.8 | 10.5 |
| IV | 57.5 | 7.8 | 4.2 | 8.6 | 13.7 |
| All cities | 64.2 | 5.9 | 6.5 | 4.1 | 10.4 |

improvements from taxes out of the question.

Table VI shows also that receipts from the earnings of public service enterprises are least in the West and greatest in the South. Receipts from this source in the South make up a figure much higher than in any other section, being sufficient in many cases to depress the figure from the property tax to a very low point. For instance,

this source. While the New England cities are a close second to the southern cities in their returns from public service enterprises, they are the lowest of all the groups in the proportion of receipts from subventions, only 1.2 per cent being returned from this source. The western cities, for obvious reasons, also show a high return from subventions.

There were in the United States,

TABLE VII

PER CENT DISTRIBUTION OF THE PRINCIPAL REVENUE RECEIPTS FOR THE TEN LARGEST CITIES OF THE UNITED STATES IN 1918

| City | Taxes | | | Special Assessments | Subventions and Grants | Highway Privileges, Rents and Interest | Earnings, Public Service Enterprises |
|-------------------|----------|------|----------------------|---------------------|------------------------|--|--------------------------------------|
| | Property | Poll | Business and License | | | | |
| New York..... | 73.1 | ... | 3.7 | 3.7 | 1.5 | 7.7 | 9.1 |
| Chicago..... | 56.5 | ... | 10.0 | 10.0 | 2.2 | 7.6 | 8.9 |
| Philadelphia..... | 62.3 | 0.1 | 4.2 | 1.4 | 1.6 | 15.9 | 10.8 |
| St. Louis..... | 61.4 | ... | 9.0 | 6.3 | 1.8 | 7.1 | 11.0 |
| Boston..... | 64.4 | 0.4 | 13.4 | 0.7 | 0.6 | 8.8 | 8.7 |
| Cleveland..... | 60.4 | ... | 5.6 | 7.4 | 2.3 | 4.2 | 12.6 |
| Detroit..... | 67.9 | ... | 2.7 | 8.1 | 5.9 | 1.7 | 8.1 |
| Baltimore..... | 60.4 | ... | 6.9 | 2.1 | 3.0 | 10.6 | 12.5 |
| Pittsburgh..... | 73.2 | ... | 3.7 | 1.7 | 2.6 | 4.0 | 10.5 |
| Los Angeles..... | 65.4 | ... | 6.1 | 6.2 | 3.6 | 1.7 | 13.7 |

Richmond derives 22.3 per cent of its revenue receipts from public service enterprises and only 56.1 per cent from property taxes; Austin, Texas, 35.3 per cent from the former and only 53.3 per cent from the latter; while in Jacksonville the receipts from this source are actually higher than the return from the property tax, the figures being 39.4 per cent and 31 per cent, respectively.

The southern cities also show greater returns from subventions, 7.8 per cent of all their receipts being derived from

in 1918, ten cities with populations exceeding 500,000. The aggregate population of these ten cities was almost 15,000,000 or nearly half that of the 227 cities over 30,000 population. The real importance of these cities from the fiscal point of view is scarcely indicated by these figures, for their mere size makes necessary the public performance of a great variety of functions and imposes upon them ever-increasing expenditures. The wider social importance of taxation questions in these ten cities war-

rants some special consideration of their sources of revenue.

Table VII shows the per cent distribution of the principal sources of revenue for these ten cities.

This table considered in connection with Table I (*p.* 124) shows that the larger cities place much greater reliance upon property taxes than those of any other group, the per cent figure from this source being 2.5 per cent higher than the average of 64.2 per cent for

all cities over 30,000 population. It will be noticed that when the figure for property taxes falls below the general average for all cities, the difference is made up, as in Chicago, St. Louis, and Boston, by a much higher percentage of business taxes; or by a comparatively higher return from special assessments as in the cases of Chicago, Cleveland, and Detroit. For the group as a whole, taxes of all sorts account for 72.6 per cent of all revenue

CHART IV

Per Capita Revenue Receipts for All Cities and for Cities of the First Group with the Proportion Derived from Taxes of All Sorts

| | | |
|----------------------|---------------|-------------------|
| All cities \$32.75 | Taxes \$23.03 | All other \$9.72 |
| Group I \$38.92 | Taxes \$28.29 | All other \$10.63 |
| New York \$42.33 | Taxes \$32.51 | All other \$9.82 |
| Chicago \$36.42 | Taxes \$24.23 | All other \$12.19 |
| Philadelphia \$30.87 | Taxes \$20.57 | All other \$10.30 |
| St. Louis \$31.74 | Taxes \$22.36 | All other \$9.38 |
| Boston \$48.03 | Taxes \$37.50 | All other \$10.53 |
| Cleveland \$34.54 | Taxes \$22.82 | All other \$11.72 |
| Detroit \$42.12 | Taxes \$29.72 | All other \$12.40 |
| Baltimore \$31.27 | Taxes \$21.05 | All other \$10.22 |
| Pittsburgh \$39.99 | Taxes \$30.75 | All other \$9.24 |
| Los Angeles \$46.70 | Taxes \$33.40 | All other \$13.30 |

receipts, a figure 2.3 per cent higher than the average for all cities. Of this the general property tax is by far the most important, special property taxes being insignificant for most of the cities. Chart IV, which shows the per capita revenue receipts for all cities and for the ten largest cities, illustrates this fact in a striking way.

In spite of the rather high returns from special assessments in Chicago, Cleveland and Detroit, this group of cities shows an average considerably lower than that for all cities. Subventions are a comparatively insignificant source in these cities, the per cent figure being a little less than half the general average. All the sums received by these cities in the form of subventions were from state governments, and more than 90 per cent were for education.

Revenues received from the granting of rights in and over highways, from the rent of public properties, and from interest on the investment of public funds, are of comparatively greater importance in the larger cities for obvious reasons. More than half of these receipts, or 52 per cent, is from interest derived largely from sinking funds; 23.8 per cent is made up of receipts from highway privileges; and 24.2 per cent from the rent of investment properties. Philadelphia received 15.9 per cent of all its revenue receipts from these sources, 92.4 per cent being derived from rents and interest. On the other hand, 73.5 per cent of Chicago's receipts from these sources arise from the grant of highway privileges, in the main to its street railway system. New York receives as interest on sinking funds nearly three-fourths of its receipts from this class of sources.

This group of cities receives 9.8 per cent of all revenue receipts from the

operation of public service enterprises—slightly less than the average for all cities over 30,000. Of the total receipts for the ten largest cities from this source New York City alone produces 39.7 per cent. Water supply systems account for 77.5 per cent of all such receipts, as against 78.1 per cent for all cities over 30,000. The only other single important source is the earnings of wharves and docks, which account for 11.9 per cent of such receipts.

Chart V is intended to show the per cent distribution of the revenues in these ten largest cities.

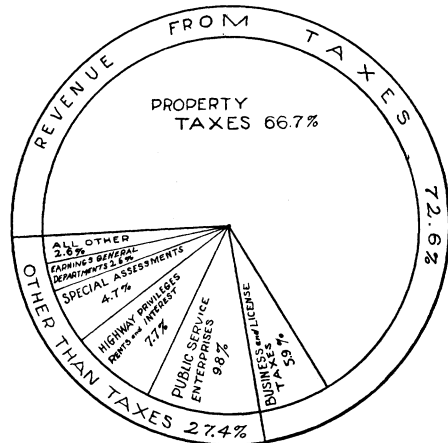


CHART V

Per Cent Distribution of Revenue Receipts of the 10 Cities Having Populations in Excess of 500,000; 1918

By comparing this chart with chart I (*p.* 124) showing the same figures for 227 cities, several differences are noted. In the large cities, the only dependable source of revenue, the tax on real property, is already considerably higher than the average for all cities. Business taxes in the large cities are exactly equal to the average figure. These are, in fact, the only sources of revenue which are theoretically capable of further expansion. Special

property taxes, now only an insignificant source of revenue, promise to be even less important in the future, with the present tendency, as it is, to reserve such sources to the state governments. It is, moreover, very doubtful if the tax on real property can be made much more productive in these cities under present methods of valuation and assessment, and it is clear that the other sources are not dependable.

If the present tendency toward separation of sources persists, there seem to be but three alternatives open to the large cities in their search for new sources of revenue. In the first place, taxes on property might, with a greater measure of justice to all

concerned, be made more productive by a separate assessment of land and improvements, with the heavier burden on the former. The two second-class cities of Pennsylvania, Pittsburgh and Scranton, are now empowered by law to adopt such a system. Second, there seems to be no reason why business taxes could not with justice be more extensively used by these cities. Last of all, it is difficult to avoid the conclusion that if the administration of special property taxes is to devolve on state governments, the development of a system of subventions will eventually offer a measure of relief to the cities which are already the homes of one-seventh of our people.

The Trend of Federal, State, and Local Revenues in the United States

By ROBERT BRUCE WATSON

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IT is a matter of far-reaching significance to the student of Public Finance that the functions of all the political units in the United States from the local to the federal have increased both in number and importance since the Civil War. Economic, industrial and social changes have been titanic and widespread. This revolution, if it may properly be called thus, has created new and diverse needs, perplexing and recurrent problems in every community. Public opinion has persistently demanded that governmental activity keep pace with the times and government could not but respond.

One of the most serious problems resulting from the extension of governmental functions into a wider sphere is that of finance, both legislative and administrative. Revenues

must be found in order to meet the rapid growth of expenditures which are the inevitable consequence of new burdens. How rapid the increase in public expenditures has been is largely a matter of conjecture. Financial statistics of cities and states are not completely available before 1915. However, a study of federal expenditures has revealed the fact that there was a per capita increase from \$2.01 in 1860 to \$10.44 in 1915, or about 520 per cent. This must be offset by the increase in population and wealth for the same period.

Thus the problem of raising revenues to meet the ever-increasing demands upon the public treasury has become one of crying need. This problem has created new ones. A readjustment in the various sources was inevitable, for many of the old